

Home sales stabilizing; weak recovery seen

WASHINGTON – June 24, 2009 – Nationwide home sales may have finally hit bottom, new data shows, but a host of thorny problems are hindering any recovery.

Sales of previously occupied homes rose by 2.4 percent from April to May - the third monthly increase this year - but the results missed analysts' expectations.

Home sellers are still competing against a growing number of bargain-priced foreclosures, buyers are paying higher mortgage rates and new rules for property appraisers are delaying or scuttling many deals.

"We have just been flooded with e-mails, telephone calls on the appraisal problems," said Lawrence Yun, the Realtors' chief economist.

The National Association of Realtors said Tuesday that home sales rose to a seasonally adjusted annual pace of 4.77 million, up from a downwardly revised rate of 4.66 million in April.

About one in three homes sold last month was a foreclosure or distressed sale, dragging down the median price to \$173,000 - 16.8 percent below a year ago.

The size of the price drop, however, reflects a crush of first-time buyers and investors snapping up bargain-priced homes. A government home price index also released Tuesday showed home prices were flat between March and April. That index, however, only measures the values of homes with government-backed loans, so it underestimates the weakness at the top end of the market and doesn't include many foreclosures.

Marlene Rossi had to shaved 26 percent off her original listing price of \$719,000 to sell her four-bedroom colonial in Congers, N.Y., on the west side of the Hudson River. She first listed the house in September 2007, thinking it would take only six months to sell. She finally accepted an offer this month for \$530,000.

Rossi, 59, and her husband now have to rethink their retirement plans. Rossi is a nanny and her husband works in a golf pro shop and also as an umpire for baseball games.

Instead of being able to buy a condominium without a mortgage, she said, "we will only be able to put a downpayment on it and we will still have to work."

The bursting of the housing bubble helped push the U.S. economy into the worst financial crisis in seven decades. Now the economy is hobbling the recovery of the real estate market. Corporate layoffs are forcing more cash-strapped homeowners to miss their monthly mortgage payments. Unemployment, currently at 9.4 percent, isn't expected to peak until mid-2010 and foreclosures should crest about six months after.

"We're in the bottom of the seventh-inning" of the housing crisis, said Mark Zandi, chief economist at Moody's Economy.com.

But there's still a risk the housing bust could go into extra innings.

Interest rates, for example, have climbed back from their all-time lows this spring. The average rate on a 30-year, fixed-rate mortgage was 5.38 percent last week, according to Freddie Mac.

Mindful of the negative trends, Patrick Newport, an economist with IHS Global insight, says home sales could fall another 9 percent from last month's levels. "Things are going to get a little bit worse," he said.

Nevertheless, there are other signs the market is turning around. The number of unsold homes fell 3.5 percent in May. That means there's a 9.6 month supply at the current sales pace, compared with 6 months or fewer in a normal market.

The inventory figures, however, don't reflect the large number of houses being held off the market by owners who are reluctant to sell while prices are falling.

Meanwhile, another complication has emerged in recent months: New rules designed to tackle conflicts of interests in the property appraisal process have caused many transactions to fall apart or be delayed.

Responding to widespread complaints about inflated appraisals during the real estate boom, New York Attorney General Cuomo reached a pact last year with mortgage companies Fannie Mae and Freddie Mac on a new code of conduct for the industry.

Since the rules took effect May 1, real estate agents and mortgage brokers say a number of appraisals are coming in surprisingly low. And now the National Association of Realtors is pressing regulators to put an 18-month hold on the code, arguing in a letter Monday to regulators that it the code is "hampering the housing market's recovery."

Chris Heller, agent-owner of Keller Williams Realty in northern San Diego, estimated that in recent weeks problems with the appraisal process have caused about a third of his transactions to fall apart.

While the new rules are not ideal, appraisers are not to blame for a market where prices are falling rapidly, said Bill Garber, director of governmental relations at the Appraisal Institute. He defended the industry, saying, "The appraisers only report what's going on in the market."



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